COMMONWEALTH OF MASSACHUSETTS

DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

WESTERN MASSACHUSETTS ELECTRIC COMPANY

D.T.E. 03-

TESTIMONY OF

JEFFREY R. CAHOON
ON BEHALF OF

WESTERN MASSACHUSETTS ELECTRIC COMPANY

August 27, 2003

THE COMMONWEALTH OF MASSACHUSETTS

BEFORE THE
DEPARTMENT OF TELECOMMUNICATION AND ENERGY

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Q. Will you please state your name, business address and your present position?

A. My name is Jeffrey R. Cahoon. My business address is 107 Selden Street, Berlin, Connecticut. I am Director - Revenue Requirements for Northeast Utilities Service Company ("NUSCO") which provides centralized services to the Northeast Utilities ("NU") operating subsidiaries, including Western Massachusetts Electric Company ("WMECO"), The Connecticut Light and Power Company ("CL&P"), Public Service Company of New Hampshire ("PSNH"), The Yankee Gas Services Company ("YGS") and Holyoke Water Power Company ("HWP").

Q. Please summarize your education and professional experience.

A. I am a Certified Public Accountant. I graduated with honors from Providence College in 1989 with a Bachelor of Science Degree in Accounting. From 1989 to 1993, I was employed by the international accounting firm of Coopers & Lybrand in Hartford, Connecticut. In 1993, I joined the Fuel Accounting and Recovery Department of NUSCO as an associate staff accountant. In 1994, I transferred to the Budget Administration Department and was promoted to staff accountant. In 1995, I joined the Revenue Requirements Department and was promoted to senior accountant in 1996, and then to Manager of Revenue Requirements in 1998. I assumed my current position in August, 2001.

Q. What are your responsibilities as Director of Revenue Requirements?

A. As Director of Revenue Requirements, I am responsible for the coordination and implementation of revenue requirement calculations for WMECO, CL&P and YGS. In addition, I have overall responsibility for both WMECO's and CL&P's securitization calculations, stranded cost reconciliations, and conservation and load management journal entries. As part of these responsibilities, I have directed the preparation and filing of various documents and exhibits related to the electric and gas industry, including those of WMECO before the Massachusetts Department of Telecommunications and Energy ("Department").

Q. Have you previously testified before the Department?

A. Yes. I have testified before the Department in Docket D.T.E. 02-49 (WMECO financing docket) as well as providing prefiled testimony in Docket D.T.E. 02-20 and Docket D.T.E. 03-34, WMECO's 2001 Transition Cost

Reconciliation and 2002 Transition Cost Reconciliation, respectively. I have also testified before the Connecticut Department of Public Utility Control in numerous general regulatory proceedings.

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to explain the Company's proposed ratemaking treatment of the costs and benefits that will arise as a result of short term debt and the prior spent nuclear fuel (PSNF) obligation being refinanced with long term debt. Please note, the short term debt refinancing transaction to which I refer throughout my testimony is the same transaction that was approved in D.T.E. 02-49. The Company is not proposing an additional amount of short term debt to be refinanced.

Q. Please elaborate.

A. When the short term debt and PSNF are refinanced, the Company's overall cost of capital will decrease significantly. This will be beneficial to customers because it will reduce the overall revenue requirement that would otherwise be required if the cost of capital remained unchanged. In addition, customers should no longer be required to pay the interest that accrues on the PSNF obligation because the trust is expected to produce earnings that will "keep pace" with the 3 month Treasury bill yield. On the other hand, the

PSNF obligation will no longer be reflected as a reduction to rate base which in turn causes an increase in the Company's revenue requirement.

Q. How will customers be impacted by these changes?

A. The impacts of these changes will occur in two stages. The PSNF interest accrual and rate base credit are included in the Company's Transition Charge (TC) reconciliation, therefore customers will first be impacted by a net increase in the Company's TC revenue requirement. Subsequently, at the time of the Company's next general rate proceeding, customers will receive the benefits of the overall reduction in the Company's cost of capital. Using an estimated rate base at December 31, 2002 as a proxy for the Company's rate base as of its next rate case, the reduction to the Company's cost of capital will result in a decrease to the return on rate base (a savings to customers) of approximately $1 million. As indicated above, this savings would not be fully realized until the time of the Company's next general rate proceeding. Please refer to Exhibit JRC-2 for the calculation of the $1 million.

Q. What's the impact to the Company of the short term debt and PSNF refinancing?

A. Refinancing the short term debt and PSNF obligation result in a net increase to interest expense. This increase in expense is offset, however, by the increase in the TC operating income. For purposes of estimating the overall impact to the Company, the 2002 TC Reconciliation (filed in D.T.E. 03-34) was recalculated assuming $55 million of short term debt and the PSNF obligation had been refinanced. Please refer to Exhibit JRC-1, page 4 of 5. The 2002 TC Reconciliation was used for this analysis because the 2002 activity is historical and therefore known and measurable. If the Department approves the Company's proposal to refinance the PSNF obligation, the amount to be refinanced will be slightly greater than the amount reflected in the 2002 TC Reconciliation and the analysis on Exhibit JRC-1.

The estimated net impact to the Company of refinancing the short term debt and the PSNF obligation is an increase to net income of approximately $2.4 million as shown on Exhibit JRC-1, page 1 of 5.

Q. Does the Company propose to share any of the estimated $2.4 million increase in net income?

A. Yes. The Company understands that the benefit of the short term debt and PSNF refinancing will not be fully realized by customers until WMECO's next general rate proceeding. Therefore, the Company is proposing to share equally with customers the estimated increase in net income of $2.4 million per year. Mechanically, the Company would reflect the customers' share ($1.2 million) in the TC Reconciliation as an additional amount of stranded cost amortization. From a revenue requirement perspective, the net earnings amount of $1.2 million equates to approximately $1.9 million of amortization per year. This additional amortization would be reflected from the date of the refinancing to the completion of the Company's next general rate proceeding.

Q. Does this conclude your testimony?

A. Yes it does.